Specification:

Page 11, replace the first paragraph of the section entitled DETAILED DESCRIPTION--
FIGS 1 --PREFERRED EMBODIMENT with the following paragraph:

- An overview of how a buyer and seller might use this method to enter into a Model Option contract is shown in Fig 1. To enter into a Model Option contract, a buyer and seller must agree on: the basic terms of ~~that~~ the option 1; ~~and must agree on~~ a methodology that ~~they will use to value~~ uses an option pricing model that will determine the value of the option 3[.]; and a premium that will be paid for the option 4. ~~If they can agree on these terms then the buyer will pay the seller an option premium as specified by their contract 4. If they are able to agree on the basic option terms and the valuation methodology, they will not enter into a Model Option contract 2.~~ If they are able to agree on the each of these things, the buyer and seller can enter into a Model Option contract 5. If they cannot agree on each of these things, they will not be able to enter into a Model Option contract 2.

Page 11, replace the section entitled Operation of the Invention with the following:

- The basic option terms that buyers and sellers must agree to 1 are a standard part of any option. They include such things as what the underlying asset consists of, the quantity of the underlying asset ~~to which the options relate~~, the strike price, the expiration date, and the ability to exercise the option.

In order to enter into a Model Option, the buyer and the seller must also agree on a ~~formula~~ methodology that ~~will be used to calculate~~ uses an option pricing model to determine the value of the option 3. Black and Scholes, Whaley, Binomial Lattice, Trinomial Trees, and Merton's Jump Diffusion are examples of some of the models that might be used to calculate the value of a Model Option. The buyer and seller must also

agree on either a specific value or a formula that will be used to determine the remaining inputs that are necessary for the model they have agreed to use.

Assuming for example that the underlying asset is a stock and the parties have agreed to use the Black and Scholes Model, they also need to agree on what values they will use for the risk-free rate, the dividend rate, and the stock's price volatility. They could agree to use fixed values for each of these inputs or to agree on a formula that will determine these values. Thus, they may agree to use the 90-day US Treasury bill yield as the risk-free rate, the last dividend payment annualized as a percentage of the current stock price as the dividend rate, and the annualized standard deviation of the daily change in the underlying stock's price over the preceding 30 trading days as the volatility. They may even decide to use the volatility of some other asset's price or index value. This could be helpful, for example, in situations where it is difficult to know what the underlying asset's price is due to the absence of a market price or illiquidity.

Next the buyer and seller must agree on when the ~~formula~~ methodology that they have specified will be used to determine ~~valuation~~ the option's value. They can use it to determine the option premium at contract inception, ~~at each important point between inception and expiration, and at expiration~~ and use a market-based approach to determine valuation during the life of the contract. ~~They may agree to use the model to determine valuation during the entire life of the option. Alternatively, they may decide to use the model to determine the option's value only after inception. during the entire life of the option.~~ Alternatively they might negotiate the option premium at contract inception and use the methodology to determine the option's value thereafter. They may even

agree that the contract will only be settled by a payment of cash, which alleviates the need to deliver the underlying asset. They may agree to exchange money at various points over the life of the option in accordance with changes in the value of the contract so that the contract never needs to be traded or exercised and that credit risk may be minimized. Additionally, the methodology may provide that one value out of two or more alternative valuations will be used. This might make sense in the case of employee stock options where the employer does not want to pay the employee more than the option's intrinsic value. ~~This approach might make sense in the case of employee stock options, where vesting takes place over a period of years. Additionally, they may agree to exchange money at various points over the life of the contract so that the contract never nees to be traded or exercised and that credit risk may be minimized.~~

Add the following two new paragraphs to section entitled Operation of the Invention:

Assuming that the Model Option contract is negotiated, the buyer and seller must agree on the initial premium that will be paid for the option 4. Such negotiation of key terms is typically absent from most employee stock options, as they are unilaterally conceived and executed by a company's board of directors and executive management.

Once all of the terms are known and have been agreed upon, the buyer must pay the option premium and the parties will thereafter exchange value over the life of the contract as specified 5. Assuming that it is a negotiated contract, a buyer and seller will not be able to enter into a Model Option contract if they cannot agree on all of these terms 2.